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**FILED**

JUN 10 2016

SECRETARY, BOARD OF  
OIL, GAS & MINING

*Attorneys for Utah Division of Oil, Gas and Mining*

BEFORE THE UTAH BOARD OF OIL, GAS AND MINING

Notice of Agency Action for an Order  
forfeiting a surety bond provided by  
Patmos Energy, LLC and authorizing  
the Division to plug and reclaim three  
wells located in Sections 7 and 17,  
Township 14 South, Range 14 East and  
in Section 14, Township 15 South,  
Range 14 East, in Carbon County, Utah

**NOTICE OF AGENCY ACTION**

Docket No. 2016-016  
Cause No. 222-17

The Division of Oil, Gas and Mining (the Division) submits this Notice of Agency Action seeking an Order from the Board of Oil, Gas and Mining (the Board) forfeiting the reclamation surety bond provided by Patmos Energy, LLC (Patmos) for its three wells, and authorizing the Division to use the forfeited funds to plug the wells and restore the sites as permitted by Utah Administrative Code Rule 649-3-1.16.

## **Jurisdiction and Procedure**

1. The Board has jurisdiction over this proceeding under the Oil and Gas Conservation Act, which grants the Board authority to regulate the plugging of wells and reclamation of well sites. Utah Code § 40-6-5(3).
2. This proceeding is to be conducted formally in accordance with the Utah Administrative Code Title R641, and with Sections 63G-4-204 to -209 of the Utah Code.
3. This proceeding affects the property or financial interests of Patmos, RLI Insurance Company, the Utah School and Institutional Trust Land Administration (SITLA), Utah Reverse Exchange, LLC, Preston Nutter Range Creek Holdings, LLC, David P. Hinkins, and Westridge Partners, LLC. Each is a “respondent” as defined by Utah Administrative Code Rule 641-100-200. However, SITLA, Utah Reverse Exchange, Preston Nutter Range Creek Holdings, David P. Hinkins, and Westridge Partners are named respondents based solely on their property interests, and the Division is not seeking an Order against them.
4. Respondents must file and serve a written response within 20 days of the mailing date of this Notice of Agency Action. Utah Admin. Code R. 641-104-141. A party that fails to either file a response or attend or participate in the hearing may be held in default. *Id.* R. 641-104-100.151.
5. Unless otherwise ordered by the Board, the hearing on this matter will be held on July 27, 2016 at 9 a.m. in the auditorium of the Utah Department of Natural Resources building, 1594 West North Temple, Salt Lake City, Utah.

## **Legal Background**

6. The Oil and Gas Conservation Act (the Act) grants the Board the authority to regulate “all operations for and related to the production of oil or gas” which includes the plugging of wells and reclamation of sites. Utah Code § 40-6-5(3).

7. The Act and its corresponding Rules require operators to post a bond made payable to the Division and conditioned on the faithful performance of an operator’s duties to plug wells and to maintain and restore well sites. Utah Code § 40-6-5; Utah Admin. Code R. 649-3-1.

8. Liability under a reclamation bond continues throughout drilling, operating, plugging, and restoring wells and well sites. Utah Admin. Code R. 649-3-1.3. The bond remains in effect until the Division releases liability under the bond. *Id.* R. 649-3-1.3.1.

9. If qualified, operators can elect to post a blanket bond, which “shall be conditioned in a manner similar to individual well bonds and shall cover all wells that the operator may drill or operate” within Utah. *Id.* R. 649-3-1.6.1. For wells exceeding 1,000 feet in depth, the Rules require a blanket bond of at least \$120,000. *Id.* R. 649-3-1.6.3.

10. The Rules also contain requirements for wells to be shut-in and temporarily abandoned. *See id.* R. 649-3-36. These provisions set conditions on the amount of time a well can be shut-in or abandoned. Specifically, if a well will be shut-in for more than twelve consecutive months, the operator must submit a Sundry Notice that explains the reasons for shut-in and the expected length of shut-in, and that demonstrates that the well has integrity. *Id.*

11. Operators must plug a well after a five year period of non-activity or non-productivity, unless the Division approves an extended shut-in time upon a showing of good cause. *Id.*

12. If the Division has not approved extended shut-in time and orders a well plugged after a five year period, and the operator does not comply with that order, the operator must forfeit the surety, and the well will be plugged and abandoned under the direction of the Division. *Id.* R. 649-3-36.4.

13. When it becomes necessary to forfeit a bond, the matter must be considered by the Board. *Id.* R. 649-3-1.16.2 and 16.4.

14. After proper notice and opportunity for a hearing, the Board may order the Division to collect the forfeited bond and use the forfeited funds to plug and restore the wells to which the bond applies, or to contract for the plugging and restoration work with the surety, the operator, or another party capable of performing the necessary work. *Id.* R. 649-3-1.16.4.

### **Allegations**

15. This matter addresses violations of the Act and its corresponding Rules by Patmos Energy, LLC (Patmos). Patmos is a corporation in good standing authorized to conduct business in the State of Utah.

16. Patmos is the designated operator of the following wells (the Wells) drilled in Carbon County, Utah:

<b>Well Name</b>	<b>API Number</b>	<b>Location</b>
CBM 1	43-007-31179	Sec. 17, T14S, R14E
CBM State 22-14	43-007-31299	Sec. 14, T15S, R14E
Penta Creek 23-7	43-007-31303	Sec. 7, T14S, R14E

17. Patmos became the operator of the Wells when the Division approved a change of operator from JAKE Oil of Utah, LLC to Patmos on October 30, 2008.

18. SITLA owns the mineral estate and may own a part of the surface estate of the CBM State 22-14 well.

19. Preston Nutter Range Creek Holdings, LLC owns most or all of the surface estate of the CBM State 22-4 well.

20. On information and belief, Patmos owns the mineral estate of the CBM 1 and Penta Creek 23-7 wells.

21. Utah Reverse Exchange, LLC owns the surface estate of the CBM 1 well.

22. Westridge Partners LLC and David P. Hinkins own portions of the surface estate of the Penta Creek 23-7 well.

23. Patmos posted a \$120,000 state-wide blanket bond, held by RLI Insurance Company (RLI) for the Wells.

24. The Division never received well completion reports for the Wells, and the Wells have never produced.

25. The Wells have been considered shut-in since their spud dates, as follows:

<b>Well Name</b>	<b>Shut-In/Spud Date</b>
CBM 1	8/1/2006
CBM State 22-14	10/12/2007
Penta Creek 23-7	10/16/2007

26. Patmos provided Sundry Notices for temporary shut-in status of the Wells in 2008 and 2009, but those Sundries did not provide the reasons for shut-in, explain the expected length of shut-in, and demonstrate wellbore integrity.

27. On March 3, 2009, the Division sent a notice to Patmos indicating that the Wells were in non-compliance with the requirements for extended shut-in or temporarily abandoned status under Rule 649-3-36.

28. The Division issued a second notice of non-compliance on July 6, 2009 because it had not received any correspondence from Patmos addressing the Wells' shut-in non-compliance issues.

29. On January 31, 2013, the Division issued a Notice of Violation (NOV) to Patmos for its violations of Rule 649-3-36.

30. The NOV ordered Patmos to provide all documentation required by Rule 649-3-36, and to plug and abandon the Wells or place them on production. The NOV had a compliance deadline of March 15, 2013.

31. On October 7, 2013 the Division and Patmos entered into a Stipulated Agreement under which Patmos agreed to plug the CBM State 22-14 and the Penta Creek 23-7 wells and to perform a Mechanical Integrity Test on the CBM 1 well. It agreed to do this work by December 31, 2013.

32. By December 31, 2013, Patmos had not completed the work required by the Stipulated Agreement.

33. Due to Patmos's failure to comply with the Stipulated Agreement and the Wells' continued lack of production, the Division determined that all three Wells should be plugged and abandoned.

34. On August 27, 2014, Patmos submitted a Notice of Intent to Plug and Abandon the Penta Creek 23-7 well. The Division approved the Notice of Intent, with conditions, on September 9, 2014.

35. Patmos has made some efforts to conduct the plugging and abandonment of the Penta Creek 23-7 Well. Specifically, Patmos placed \$40,000 into an escrow account to pay Bo Stinson, who Patmos hired to complete the work.

36. To date, Mr. Stinson has allegedly completed some work on the Penta Creek 23-7 well. However, the Penta Creek 23-7 well has not been plugged and abandoned as required.

37. The Division has not received Notices of Intent to Plug and Abandon either the CBM 1 well or the CBM State 22-14 well.

38. The Division never received Sundries required by Rule 649-3-36 for extended shut-in status for the Wells

39. The Division has given Patmos numerous opportunities to bring its wells into compliance over the course of the past few years. Patmos made some attempts, but failed to follow through with its plans to plug and abandon the Penta Creek 23-7 well, and never submitted the required Sundries to plug and abandon the CBM 1 well or the CBM State 22-14 well.

40. Patmos and RLI remain liable under the bond, because the Division has not released either party from liability.

### **Request for Action**

Based on the factual allegations above, the Division moves the Board to take the following actions:

1. Find that the Wells have been shut-in beyond the time permitted by the Rules, and that Patmos has failed to plug and abandon the Wells as required by Utah Administrative Code Rule 649-3-36;
2. Order Patmos's interest in the \$120,000 blanket bond be forfeit to the Division and order RLI to deliver the full amount to the Division;

3. Authorize the Division to use the forfeited funds to complete the plugging and restoration of the Wells as permitted by Rule 649-3-1.16; and
4. Grant further relief that the Board deems just and proper.

Respectfully submitted on the 10<sup>th</sup> day of June, 2016.

UTAH OFFICE OF THE ATTORNEY GENERAL



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*Addresses Required by Rule:*

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Utah Division of Oil, Gas and Mining:  
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## Certificate of Service

I certify that I caused the above Notice of Agency Action to be served on the following parties on the 10<sup>th</sup> day of June, 2016:

Patmos Energy, LLC  
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